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Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 13 December 1956. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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IMPACT OF RECENT DEVELOPMENTS UPON WESTERN EUROPE

THE PROBLEM

To examine the effect upon Western Europe of recent developments, particularly in the Middle East and Hungary; to estimate the immediate and longer-term economic, political, and strategic results; and to indicate the manner in which these might affect Soviet policy and the East-West conflict.

ASSUMPTIONS

- a. That the Suez Canal and IPC pipelines will not be open to full-scale traffic before 1 June 1957, although they could be open for limited traffic by 1 March 1957.
- b. That TAPLINE remains open at full capacity.
- c. That reallocation of transport and of increased Western Hemisphere petroleum supplies will permit Western Europe to meet about 80 percent of its normal petroleum requirements.

CONCLUSIONS

1. As a result of the petroleum shortage and the closure of the Suez Canal to all shipping, Western Europe will suffer from unemployment, and from declines in industrial production, incomes, and new investment. Its economic growth will be interrupted. There will be at least short-term inflationary effects, which are likely to be more serious in France than elsewhere. Serious strains on the dollar balance of payments will occur in many Western European countries, particularly in the UK. (*Paras. 12-23*)
2. The military posture of NATO, already weakened by the diversion of French and British NATO forces outside Europe, is being threatened by the petroleum shortage. (*Para. 36*)
3. The internal politics and foreign policies of the Western European countries will be influenced for many years to come by the recent developments in Eastern Europe and the Middle East. The Conservative Party in the UK is in serious trouble; the perennial French political problem has been aggravated. The Com-

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munist movement in Western Europe has been considerably weakened, but the USSR has again demonstrated its capacity for intimidation and blackmail. The abortive intervention in Egypt by Britain and France has critically impaired their positions in the Moslem world and indirectly weakened colonialism everywhere. NATO has suffered a further decline in vitality and cohesion, and its members are engaged in a reappraisal of the alliance and of their national positions. (Paras. 24-33)

4. The outcome of this reappraisal in the short term is likely to be increasing pressure upon the principal members to clarify the extent to which they are prepared to coordinate policy within the alliance. There will also be strong pressure for a re-examination of the military concepts embodied in NATO and pressure upon the US to integrate its over-all military planning, particularly with respect to the availability and use of nuclear weapons, with that of its NATO partners. Failure to develop more effective arrangements regarding these problems would be unlikely to lead to an early collapse of NATO, but it would accelerate the decline in its vitality. In any case, there will be a stronger trend toward broad intra-Euro-

pean cooperation. Over the longer run, Europeans might show an increasing interest in exploring new European security arrangements possibly involving the dissolution or drastic modification of NATO, although great obstacles to the realization of such schemes remain. (Paras. 34-40)

5. Soviet standing in Western Europe has suffered a setback as a consequence of the Hungarian affair. On the other hand, the divisions within NATO provide an opportunity for Soviet exploitation. We believe that the Soviet leaders will continue to strive to maintain effective political control in Eastern Europe and to retain and exploit their foothold in the Arab states, even though they probably recognize that this will further reduce their standing in Western Europe and contribute a measure of solidarity to NATO. For them to agree to a general European settlement involving the mutual withdrawal of US and Soviet forces and thereby promote the dissolution or drastic modification of NATO would, we believe, require a fundamental reassessment of their position. We think they are unlikely to make any such reassessment until at least the returns from Eastern Europe and the Middle East have been tallied. (Paras. 41-44)

DISCUSSION

I. ATTITUDES AND RESPONSES TO EVENTS

6. Even before the Anglo-French attack on Egypt, the North Atlantic Alliance was losing vitality and cohesion. The relaxation of tensions following the Summit Conference of 1955 took some of the urgency out of the alliance, and many of its European adherents began to advance the view that this alliance in its existing form and military composition was out of step with the times. In their view,

the danger of Soviet military aggression had greatly receded, and the shift in the arena of conflict with the USSR to the undeveloped and colonial areas required a closer coordination of policy among the NATO members toward the areas in question. At the same time, the reduced fear of war led to a declining popular and parliamentary enthusiasm for military expenditures and the development of forces for NATO purposes. Their own domes-

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tic and colonial concerns led some members to reduce or openly to question the form and nature of their force commitments to NATO.

7. During 1956 Western Europe enjoyed high levels of economic activity highly dependent on Middle Eastern oil. The emergence of ultranationalist sentiment among the Arabs both in the Middle East and North Africa, Nasser's growing prestige, the increasing Soviet interest in the Middle East, and the mounting disorder along the Arab-Israeli borders were visible reminders that European well-being could easily be upset if existing trends continued. Thus, when the Egyptian government expropriated the Suez Canal Company, the possibility that traffic through the canal could be closed, controlled, or rendered uneconomical became a focus for more general fears about the economic future of Europe and a symbol of its reduced power and prestige in the world at large.

8. In particular the British and French leaders felt that they were facing a direct challenge and that the failure to meet it squarely would accelerate the deterioration of their political and economic position in the Middle East and North Africa. This, they believed, would result in the eventual strangulation of the Western European economy generally through a series of moves to raise costs and curtail existing trading arrangements. Other Western European countries, while they did not share the immediate and violent reaction of the British and French, were deeply concerned and associated themselves with moves to establish international control of the canal. At the same time, a growing feeling of insecurity and frustration spread in Western Europe. There was criticism of the United States for alleged vacillation in its policy toward the canal and for a general failure to exercise its leadership and authority on behalf of its European allies. Western Europe, it was felt, was gradually losing its freedom of action, and the USSR and a new group of Arab-Asian leaders were calling the tune.

9. The explosive impact of events beginning at the end of October intensified Western Europe's realization of its vulnerability. Public opinion in Britain was split, in France rela-

tively united, regarding the use of force. Official and public opinion in the other Western European nations generally deplored — though sympathizing with — the British and French intervention in Egypt, and they condemned the failure to consult them and the US. Except in the UK, however, popular interest shifted to events in Hungary. The brutal Soviet intervention in Hungary stimulated a storm of indignation. Events in connection with the Middle Eastern crisis, and particularly the implied Soviet threat of force against Britain and France, temporarily crowded out concern over Hungary. This threat, coming on top of US and UN pressure, caused the British and French governments to call a halt to military operations in Egypt far short of their objectives and with only a fraction of the canal within their control.

10. Subsequent developments have led to a widespread acceptance of the idea that the British and French have suffered a grave setback in Egypt. While the British and French intervention is almost nowhere (except in France) regarded as having been a wise policy decision, much Western European resentment has also been directed against the United States. It is widely held that the US has failed to exercise positive leadership in the UN to restore the situation in Egypt in such a manner as to curb Soviet influence and provide an honorable course of retreat for its British and French allies. Expression of anti-American sentiment has at least temporarily reached unprecedented levels in Britain and France and extended to some elements hitherto strongly pro-American. Outside these two countries there has also been criticism of the US for failure to consult with its NATO allies and to take the leadership in revitalizing the North Atlantic Alliance at a time when it is foundering.

11. Moreover, Western Europeans generally have been frustrated by their inability to assist the Hungarians, and the US has been criticized in some quarters for not giving them stronger support in view of its alleged prior encouragement. On top of these criticisms, the developing economic difficulties resulting from the closure of the canal and the sabo-

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tage of the IPC pipelines have affected many who were otherwise uninterested in placing blame or were sympathetic to the US position. Coming at a time when Europe is experiencing its first cold weather of the winter, the immediate effects of the shortage of fuel oil are evident to nearly everyone and there is widespread fear that the effects of the oil shortage will spread so widely as seriously to damage economic life as well.

II. ECONOMIC IMPACT

12. The economic effects of reduced shipments of petroleum and dry cargo as a result of the Suez crisis will complicate the economic problems already plaguing a number of Western European countries prior to the canal's closure. In the United Kingdom and most of the Scandinavian countries there were strong inflationary pressures since domestic demand and advancing wages were in danger of exceeding the declining rate of economic growth and adversely affecting trade balances. These countries had adopted anti-inflationary measures which in the United Kingdom assisted in maintaining a precarious balance in external payments largely through a decline in imports. In France persistent inflationary pressures as a result of rising wages, budgetary deficits, crop failures, and diversion of manpower for hostilities in Algeria were being largely met by rapid increases in production and by drawing down foreign exchange reserves. In any case, continuation of these pressures even without the Suez crisis could have led to an economic crisis by mid-1957.

13. The most immediate economic consequence of the Suez crisis is the shortage of crude petroleum. Petroleum represents roughly 20 percent of the total energy supplies of the Western European countries. Eighty percent of their current petroleum requirements of about 150 million tons a year are normally obtained from the Middle East. In 1955 Western Europe depended on petroleum to move over half of its inland freight. Road, air, and water transport are almost entirely dependent on petroleum products and account for about 44 percent of European petroleum consumption. Petroleum is of small importance for rail transport and elec-

tricity generation but accounts for over 10 percent of energy consumed by industry. The remaining principal use is for heating and private gasoline consumption. There is an extremely wide variation in the degree to which individual Western European countries are dependent on petroleum.¹ In West Germany only nine percent of total energy is derived from petroleum, whereas in Greece petroleum accounts for 73 percent. Germany, the United Kingdom, France, and Belgium are less dependent on petroleum for the well-being of their economies than the Scandinavian and Mediterranean countries.

14. The closure of the Suez Canal and IPC pipelines and the rerouting of tankers around the Cape cut off 40 percent of Western European petroleum supplies. Exports from the Western Hemisphere, especially the US, and reallocation of both petroleum supplies and transport under present plans will reduce the deficit in Western Europe to about 20 percent of total requirements² in early 1957. The deficit will probably be reduced by a further five percent through possible conversion of oil facilities to coal. Any reduction beyond this

¹ Western European dependence on petroleum was rapidly increasing prior to the Suez crisis and the proportion of oil to total energy was running at a higher level in 1956. Petroleum as a percent of total energy supplies to Western European countries in 1955 follows:

	All Uses	Industrial Uses
Greece	73%	45%
Portugal	47	23
Sweden	44	40
Ireland	39	n.a.
Denmark	37	43
Italy	33	27
Switzerland	29	7
Netherlands	26	26
Norway	25	18
France	20	13
Austria	20	n.a.
Belgium	16	17
United Kingdom	13	4
Germany	9	3
Average for Western Europe	18%	11%

² Since bunkers for overseas transport cannot be reduced, the total available for consumption within Europe will be reduced by an additional five percent.

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during the next six months seems unlikely because of difficulties in an early conversion of facilities and the over-all shortage of coal in Europe. Western Europe is already importing substantial quantities of US coal, and substantial additional imports will be difficult because of the shortage of dry cargo shipping. Allocation of petroleum among Western European countries will probably be based on a uniform reduction in relation to their pre-Suez consumption, although presumably there will be continuous negotiations to alleviate the more glaring inequities.

15. An immediate consequence of the Suez crisis is the shortage of shipping. Even with the diversion of oil from the Western Hemisphere and reactivation of 30 tankers from the US reserve fleet, there will be a shortage of tankers as long as the canal and important pipelines remain blocked. Dry cargo vessels are also affected since closure of the canal has lengthened the voyage from Europe to most points east of Suez. The dry cargo charter market was already tight before the Suez crisis because of the seasonally high demand for bulk cargo shipments such as coal and wheat. The shortage of dry cargo ships will be somewhat reduced in the next few months by the US reactivation of 60 ships from the reserve fleet, British release for commercial use of 60 ships requisitioned last summer for mobilization in the Eastern Mediterranean, and economies effected in shipping schedules. However, a continuing tight shipping market will raise freight rates substantially above the pre-Suez level and along with more irregular deliveries of raw material imports will tend to increase commodity prices in Western Europe.

16. By drastically curtailing private motoring and residential and commercial heating and substituting coal where immediate conversion is possible, petroleum product supplies to European industry could be maintained at an estimated 85 percent of normal petroleum consumption, representing somewhat less than two percent reduction in total energy to industry. The reduction in different countries will vary from very small in Western Germany to perhaps four to six percent in Italy and Sweden. Not only will the increase

in industrial production be halted but, for a variety of reasons, present levels of industrial production will be reduced at least as much as reductions of fuel to industry. The effect is likely to spread cumulatively throughout the economies of these countries, leading gradually to a greater fall in industrial production. For example, the industries relying most heavily on oil, such as steel, cement, glass, and pulp, supply components and materials to a wider group of industries. The automotive and related industries are severely affected by gasoline rationing. After the running down of available civilian stocks, dislocations resulting from direct shortages, less efficient inland transport, and delays in certain raw materials imports could reduce overall industrial production in Western Europe by more significant amounts. Even greater curtailment may result from the psychological impact on entrepreneurs and from difficulties arising because of dislocations in trade and balance of payments positions.

17. Employment levels will be reduced though probably to a lesser degree than production. However, there will be decreases in the work week and lower take-home pay. In countries where unemployment is substantial, notably Italy, Ireland, Denmark, and Belgium, the drop in employment would have more serious effects than elsewhere.

18. Despite some increases in unemployment and a probable reduction in new investment, the short-term effect of the crisis will be inflationary. Petroleum costs will rise as a result of higher tanker rates and more expensive Western Hemisphere supplies, which in turn will raise manufacturing costs somewhat. Increased freight rates for dry cargo imports will have a further effect in raising industrial costs. These cost increases will tend to have cumulative and spiralling effects, particularly as shortages of materials tend to occur and purchasers bid for stocks. On the demand side, there is likely to be an inflationary impetus since employment is expected to decline less than production. Inflationary pressures will vary considerably from country to country, and the outcome will depend in part on measures adopted by the respective governments. The effect will probably be most

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marked in France, where the budget deficit will be increased in particular through losses of tax revenues. Since the wage structure is linked to the price index, even a slight increase in prices could set off a wage-price spiral and cause serious economic and social instability.

19. In many European countries the inflationary spurt may be short-lived. Accumulation of inventories may come to an end quickly, the revival of postponed investment may lag, and certain industries, for example automobiles, may be slow in returning to full production. However, such a deflationary aftermath will probably not be severe.

20. Serious strains may be expected on the balance of payments of many Western European countries. The additional dollar cost arising from the new pattern of petroleum distribution will probably amount to \$300 million for Europe as a whole over a six month period, assuming a moderate increase in the price of crude. These higher dollar costs arise primarily from increased imports of high-priced Western Hemisphere petroleum and loss of British sales of Middle Eastern petroleum to the US. The UK will bear a disproportionately high share, estimated at 60 percent, because British companies will sell dollar petroleum to regular customers in Western Europe for sterling, and the UK also will lose hard currency credits in the EPU as its petroleum sales on the continent decline. The relatively weak pre-Suez position of sterling has been intensified. British gold and dollar reserves fell by \$230 million in the 12 months ending October 1956,³ and by an additional \$259 million in November alone; on 4 December the reserves were down to \$1,965 million.

21. On the other hand, the British have substantial additional dollar resources, including about \$1 billion in US securities and drawing rights with the International Monetary Fund, up to \$1.3 billion. They have indicated a determination to use these resources to support the present exchange rate for sterling.

³ The capital windfall from the sale of the Trinidad Oil Company to US interests in September 1956 for \$177 million has been excluded.

Moreover, they have already approached the US and Canada for a cancellation of interest payments aggregating over \$100 million on outstanding government loans. The UK faces a serious financial crisis in the defense of its sterling position which probably will mean restrictions on imports and domestic consumption for a considerable period after the Suez Canal is reopened. The general balance of payments for Western Europe, aside from dollars, probably will not be greatly affected since reduced exports will tend to be offset by lower imports and higher earnings for its large merchant fleet.

22. Western Europe's foreign trade will be adversely affected by the rising costs and weakened competitive position in world markets vis-a-vis the US and probably Japan. Also, disparities among Western European countries are likely to be accentuated. Germany, in particular, which has been earning large surpluses in the European Payments Union, is likely to be competitively strengthened. Petroleum is not so important in its total energy supplies, and Germany is not as heavily dependent upon overseas supplies of raw materials as other European countries.

23. The Soviet Bloc now supplies almost two percent of Western Europe's petroleum supplies. If the USSR were willing, it could about double its export of oil to Western Europe, permitting a reduction of the estimated Western European current deficit from 25 percent of total requirements to about 23 percent.

III. THE POLITICAL IMPACT

24. In addition to their effect upon public attitudes and upon the economy of Western Europe, recent events have had a significant effect upon the power and prestige of Britain and France, and consequently upon the political situation in Europe. Although the internal position of the other Western European governments has not been greatly affected, all of them are deeply disturbed and to some extent divided over the international repercussions of the Suez situation. In one way or another internal developments and foreign policy will be influenced for many years to come.

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25. *The United Kingdom.* After five years of power the Conservative Party is in serious trouble and the country is deeply divided. The cumulative effects of events during the past several months have resulted in a substantial loss of confidence in the present leadership. Anthony Eden's position as Prime Minister is so shaky that he probably cannot long survive. Even if a Conservative government continues in office, it might find it increasingly difficult to govern. An early general election appears unlikely, although events consequent to the present crisis will probably lead to an election well before 1960. Labor's determined opposition to the intervention in Egypt initially won widespread support in the country, but a wave of national feeling has produced some new rallying to the government's cause. However, the cumulative effect of post-Suez developments probably will produce a further swing toward Labor. Much will depend upon the circumstances existing at the time when elections actually occur.

26. *France.* Except for the Communists and minority elements of certain political groups, the country has supported the government's policy. However, the government's problems, which it hoped could be surmounted by a victory in Egypt, have been increased rather than reduced by the outcome. A solution in North Africa deemed favorable by the French has been rendered more remote. The usual budgetary and inflationary problems have been aggravated by the continuing drain in North Africa, the new drain in Egypt, and the forthcoming financial and economic costs of the petroleum shortage. So far, the government has not been made the scapegoat, but sooner or later this will occur, and again the constitutional machinery of France will be challenged with the problem of finding a new government which is able to find the necessary support to deal with the major issues confronting France. A critical phase will be entered in the forthcoming UN General Assembly debate on Algeria.

27. *Domestic Communism.* Events particularly in Hungary have considerably weakened the Communist movement in Western Europe generally. With the reassertion of the iron

fist in Hungary, considerable tumult and much outright defection have occurred. Some of the smaller parties, and especially that in the UK, have been very seriously damaged. In Italy, we estimate that the party has suffered a decline in national voting strength as high as 25 percent. More significantly, the leadership and the cadres are in turmoil, and serious differences in the party have developed over the official line, which has supported the Soviet intervention. In France, where the party has always been better disciplined, there is less discernible disorder in the hard core, although a number of prominent intellectuals and fellow travellers have broken with the party line. In present circumstances, there is little likelihood of substantial desertions of the party membership. However, in both Italy and France, the Communist parties have been forced back into political isolation. In Italy, the Communist isolation is the more severe blow because of the pace at which Pietro Nenni, leader of the Italian Socialist Party, is separating himself from the Communist leadership.

28. *Soviet Influence.* Although the moral and political position of Communism has been weakened, Western European governments have come to a renewed appreciation of their inability to counter the power of the USSR without US support. After the victory of Gomulka in Poland and the early gains of the revolutionists in Hungary, there was growing hope that the USSR would find itself compelled gradually to retire from its position in Eastern Europe. However, the application of brute force in Hungary, the threat of volunteers in Egypt, and above all the implied threat of force directly against Britain and France dissipated this optimism. The fear which was stimulated has demonstrated the USSR's capacity for blackmail and intimidation. Moreover, continuation of Soviet maneuvers in Egypt and Syria have made it obvious that the USSR intends to play an increased role in the Middle East, where Western Europe's economic interests and security are already in jeopardy.

29. *European Influence.* The abortive intervention in Egypt by Britain and France has critically impaired their already weak

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position in the Moslem world and indirectly weakened the European colonial position everywhere. The UK's political influence has been seriously undermined in Iraq and its position in the sheikdoms and minor states is jeopardized. The French position in Algeria has further deteriorated. The French Union never had very good prospects for vitality, but the British Commonwealth, which had shown promise for building new and mutually satisfactory relations between Britain and its erstwhile colonial empire, has been seriously strained. The roll-back in the British and French positions from the Middle East, and particularly the moral and political victory won by the powers emerging from colonial status and by Nasser, cannot help but have important effects in all of Africa.

30. The severe setback for Britain and France was also one for the other colonial powers, notably Belgium and Portugal. All of the European powers, because of the close interrelations of their economies and because of their inescapable political and military interdependence, recognize that they confront a critical situation: their alliances weakened, the USSR championing the emergent peoples, and over the longer run their living standards and employment threatened by an inability to control ready markets and sources of supply.

31. *NATO: The Present Situation.* With the withdrawal of the British and French from the canal zone in process and with emergency measures for alleviating the petroleum shortage underway, concern is turning toward binding up the Western alliance in the face of renewed Soviet threats. Despite some strain between Britain and France over the phasing of the withdrawal, the two powers at present remain in close association; they are bound by a common interest to salvage what they can from the blow they have suffered; they share a common grievance against the US and a common interest in trying to minimize the effects of the resentment which their action generated among other nations of the world. The most important problems for the alliance are the tripartite relationships among the US, the UK, and France. The decline in mutual confidence, particularly

between the US and UK, has reached serious proportions. There are suggestions of far-reaching changes in British and French foreign policy. While these suggestions may be in part designed to frighten the US, they also represent a genuine disappointment with US policy and almost certainly reflect some re-examination of the basic considerations upon which various policies have hitherto been based.

32. There are other divisive factors within NATO. As noted above (para. 6), there has been increasing pressure for wider foreign policy coordination and a re-examination of military plans. The highly adverse economic impact of the curtailment of Middle Eastern petroleum supplies, and particularly the possible longer-term effects on balance of payments, employment, and living standards, must already be obvious to governmental leaders and will probably induce them to withhold commitments on military expenditures and on maintenance of NATO force levels and military posture.

33. On the other hand, there are compensating factors. The present German and Italian governments, backed by some of the smaller powers, are pressing hard for a restoration of unity and are urging the US to assume leadership in rebuilding NATO's vitality. The menacing new posture of the USSR has reminded them of their defenselessness without US support, particularly nuclear capability. Even Iceland has reconsidered its demands for US evacuation in light of the developments in Eastern Europe and the Middle East. Nevertheless, the NATO powers are individually and collectively engaged in a fundamental reappraisal of NATO and of their respective national positions.

34. *NATO: The Short-Term.* The outcome of this reappraisal in the short-term is likely to be increasing pressure upon the principal members to clarify the extent to which they are prepared to coordinate policy within the alliance. There will also be strong pressure for a re-examination of the military concepts embodied in NATO and pressure upon the US to integrate its over-all military planning, particularly with respect to the availability and

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use of nuclear weapons, with that of its NATO partners. The West German government in particular will probably press strongly for a strategic plan which recognizes the need for an effective military force with modern tactical weapons to supplement the deterrent of massive nuclear retaliation. On the part of some of the European members, there will probably be an effort to bring about collective NATO action on intra-NATO and intra-European problems such as Cyprus.

35. Should it prove impossible to develop more effective arrangements for consultation and coordination of policy within NATO, this would be unlikely to lead to the early collapse or destruction of the alliance. Despite the recent emotional reactions in France and the UK, responsible leaders recognize that they can have little security unless they remain tied to the US. They also recognize that they can no longer rely upon their own power and prestige to rebuff Soviet advances into the colonial and underdeveloped areas or to promote the stability in those areas so necessary to their economic well-being. Nevertheless, a failure to develop more effective consultation and satisfactorily to recast NATO's strategic concepts would accelerate the decline in the vitality of the alliance. However, the European powers would probably continue to go along with NATO, while carping at US leadership. They would be even less willing to subordinate their own national interests to over-all NATO military requirements. Barring a resolution of the nuclear weapons problem in EURATOM, France would probably make greater efforts independently to develop nuclear weapons, and the West Germans would strain at the limitations imposed by the Western European Union charter upon the development of a nuclear capability of their own.

36. *Military Posture.* Meanwhile the military posture of NATO, already weakened by the diversion of French and British NATO forces outside Europe, has continued to deteriorate. Military stocks of petroleum, even before the closure of the Suez Canal, were considerably below NATO requirements. Acute shortages already exist in Italy, Greece, and Turkey. NATO stocks are unlikely to be augmented

and in some cases may be further depleted until normal supply is resumed. There will be considerable pressure for the release of stocks for civilian use.

37. *European Cooperative Efforts.* In any case, there will be a continuing trend toward greater cooperation among the Western European countries. The UK for some months has been edging closer to the continent on matters of economic cooperation. Despite some reticence in both France and Germany, strong elements in both countries have been pushing toward solutions of their differences and toward the realization of such cooperative schemes as EURATOM and the Common Market. The economic repercussions of the Suez crisis are likely to complicate the technical problems involved in creating the Common Market, but both the political and economic motivations for closer general cooperation have been substantially strengthened.

38. *The Longer Term in Western Europe.* Over the longer run, the individual reappraisals of NATO and of the European power position which are now in process could lead to the dissolution or the drastic modification of NATO itself. For example, there has been discussion of replacing NATO by or subordinating it to a broad European security arrangement involving Eastern Europe and the USSR. According to this line of thought, both Eastern Europe and Western Europe could in effect be neutralized by the withdrawal of foreign (i. e., US and Soviet) forces and bases. Should the USSR demonstrate a receptivity to such an arrangement, it would probably become increasingly attractive to many who now regard such an arrangement as either dangerous or illusory. Thus, even if the US should attempt to restore vitality to NATO by moving to develop a wider area of consultation and cooperation on European and non-European problems, there is no assurance that this would prevent a search for new security arrangements.

39. In the backing and filling of European reaction and policy which will continue for some time, there nevertheless will remain great obstacles to the realization of such new security arrangements. Both parties in the

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UK contain dominant elements wedded to the US alliance and unmitigatedly distrustful of the USSR. France, if for no other reasons than its likely further losses in world power position and the inherent difficulty of it making sharp reversals of policy, seems unlikely to withdraw completely into itself and cast itself unprotected by American backing and support into a purely European community in which the Germans probably would seize effective leadership. In West Germany, Adenauer remains firmly committed to the Western alliance.

40. We cannot at this time estimate the longer-term outcome of Western Europe's reappraisal of its position. We believe that the potential for developing new security arrangements, which has always been present, has been given new impetus by recent developments. How likely such arrangements are to come about will depend greatly upon the strength and nature of the European political forces supporting them, and upon the policies which the US and USSR develop in the months to come.

IV. SOVIET POLICY

41. The USSR's attempts during 1955 and 1956 to convince Western Europeans of its peaceful posture have been undermined by recent developments. Beginning in the spring of 1955, the Soviet leaders attempted to nurture the belief that there had been a fundamental change of atmosphere within the USSR and in its foreign policy. With the objective of delaying West German rearmament and generally undermining the strength of NATO ties and the NATO defense effort, they carried on a diplomatic and propaganda campaign for a European security pact to supersede NATO and the Warsaw Pact. They cultivated Socialist parties and encouraged the local Communist parties to promote popular front alignments. In general, they tried to narrow the base of support for pro-NATO policies and to encourage the growth of independent national interests in the hope of bringing about changes in the policies of the NATO members in Europe. At the same time, the Soviet leaders attempted to replace West-

ern influence in the Middle East and to deprive the Western allies of the economic advantages they enjoyed there. This latter line of policy was inconsistent with their tactics in Western Europe.

42. As noted above (para. 27), the Hungarian affair has weakened the position of the Communist parties in Western Europe and aroused an intense anti-Soviet reaction. Moreover, the role of the USSR in the Egyptian affair and subsequent developments in Syria have made obvious to Western European leaders, including the Socialists, both the extent of Soviet infiltration into the Middle East and the serious effects upon Western Europe which this entailed. Thus, the USSR, if it wished to re-establish its earlier standing in Western Europe, would have to soft-pedal its role in the Middle East and foreswear the use of naked force in the Satellites. The Franco-British intervention in Egypt and the consequent strains in the Western alliance have eased the USSR's problem, but even so the USSR is far from regaining either its pre-Hungary standing or potential for appeasement and propaganda.

43. The Soviet leaders almost certainly recognize that, on the one hand, their prestige in Western Europe has been impaired, but that on the other hand, the divisions in NATO provide an opportunity for exploitation. The immediate desires of the Soviet leaders are to maintain effective political control in Eastern Europe and to retain and exploit their foothold in the Arab states. While they are cognizant that their actions in Eastern Europe and the Middle East may further reduce their standing in Western Europe and contribute a measure of solidarity to NATO, we believe that they will continue to pursue their present objectives in Eastern Europe and the Middle East. Nevertheless, insofar as it would be consistent with Soviet security considerations and in an effort to prevent a coalescence in NATO, the Soviet leaders will probably attempt to restore a facade of national communism in Hungary and seek to avoid repeating the Hungarian episode in Poland. They might likewise proceed with caution in the Middle East.

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44. For the Soviet leaders to agree to a general European settlement and thereby promote the dissolution or drastic modification of NATO would, we believe, require a fundamental reassessment of the Soviet political and strategic position in the world at large. They would probably not make such a reassessment at least until the returns from Eastern Europe and the Middle East have been tallied. We believe that it is still their policy to prevent the evolution of the Satellites into non-Communist or neutralist regimes. At the

same time, they almost certainly believe that developments in the Middle East have helped to disrupt the NATO alliance and served to weaken Western Europe economically. However, we cannot exclude the possibility that the Soviet leaders might come to a decision seriously to attempt to negotiate new European security arrangements based upon a mutual withdrawal of US and Soviet forces, particularly if they concluded that the policy of force in the Satellites had become bankrupt.

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